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ANNUAL AUDITED REPORT  
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PART IIIWashington, DC  
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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Arrowhead Investment Center, LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

550 E. Hospitality Lane, Suite 220  
(No. and Street)San Bernardino  
(City)CA  
(State)92408  
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Michael Castillo(909) 379-6554

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Clifton Gunderson LLP

(Name - if individual, state last, first, middle name)

3002 North Central Avenue, Suite 500, Phoenix, AZ 85012

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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# OATH OR AFFIRMATION

I, Michael Castib, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Knowledge Investment Center, LLC, as of February 28, 2008, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Not applicable

Michael Castib

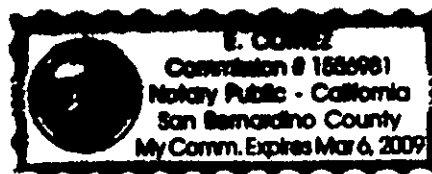
Signature

CEO/CCO

Title

[Signature]

Notary Public



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☒ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**ARROWHEAD INVESTMENT CENTER, LLC**  
San Bernardino, California

**FINANCIAL STATEMENTS**  
December 31, 2007

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## Independent Auditor's Report

Management Committee  
Arrowhead Investment Center, LLC  
San Bernardino, California

We have audited the accompanying statement of financial condition of Arrowhead Investment Center, LLC as of December 31, 2007, and the related statements of operations, member's capital, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arrowhead Investment Center, LLC as of December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Clifton Gunderson LLP*

Phoenix, Arizona  
February 18, 2008

**ARROWHEAD INVESTMENT CENTER, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**December 31, 2007**

**ASSETS**

**CURRENT ASSETS**

Cash and cash equivalents	\$ 742,934
Commissions receivable	130,000
Investment income receivable	6,307
Investment securities	1,100,000
Prepaid expenses	9,037
Other assets	<u>6,411</u>
Total current assets	<u>1,994,689</u>

**NON-CURRENT ASSETS**

Fixed assets, net	<u>19,105</u>
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<b>TOTAL ASSETS</b>	<b><u>\$ 2,013,794</u></b>
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**LIABILITIES AND MEMBER'S CAPITAL**

**CURRENT LIABILITIES**

Accrued expenses	\$ 196,290
Related party payables	<u>58,310</u>
Total current liabilities	<u>254,600</u>

<b>MEMBER'S CAPITAL</b>	<u>1,759,194</u>
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<b>TOTAL LIABILITIES AND MEMBER'S CAPITAL</b>	<b><u>\$ 2,013,794</u></b>
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The accompanying notes are an integral part of the financial statements.

**ARROWHEAD INVESTMENT CENTER, LLC**  
**STATEMENT OF OPERATIONS**  
**Year Ended December 31, 2007**

**OPERATING INCOME**

Investment center income \$ 2,134,010

**INTEREST INCOME**

Interest on investment securities 22,252

Total income 2,156,262

**OPERATING EXPENSES**

Salaries and benefits 1,514,862

Occupancy expense 150,194

Broker dealer expense 152,615

Depreciation 15,319

Insurance 23,723

Office operating expense 111,251

Advertising and promotion 14,077

Professional services 26,819

Total operating expenses 2,008,860

Net income from operations 147,402

**OTHER INCOME (EXPENSE)**

Miscellaneous income (expense) (16,766)

Interest on related party note receivable 61,305

State gross receipts tax (6,046)

Total other income (expenses) 38,493

**NET INCOME**

\$ 185,895

The accompanying notes are an integral part of the financial statements.

**ARROWHEAD INVESTMENT CENTER, LLC**  
**STATEMENT OF MEMBER'S CAPITAL**  
**Year Ended December 31, 2007**

<b>BALANCE, DECEMBER 31, 2006</b>	<b>\$ 1,573,299</b>
Net income	<u>185,895</u>
<b>BALANCE, DECEMBER 31, 2007</b>	<b><u>\$ 1,759,194</u></b>

The accompanying notes are an integral part of the financial statements.



**ARROWHEAD INVESTMENT CENTER, LLC**  
**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2007**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Net income	\$ 185,895
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	15,319
Loss on sale of fixed assets	10
Effects of changes in operating assets and liabilities:	
Commissions receivable	(37,967)
Investment income receivable	(6,307)
Prepaid expenses	7,363
Other assets	(6,411)
Accrued expenses	70,395
Related party payable	(11,613)
Other liabilities	(4,680)
	<u>212,004</u>
Net cash provided by operating activities	<u>212,004</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from repayment of note receivable	900,000
Purchases of investment securities	(1,100,000)
Proceeds from sale of fixed assets	16,200
Purchases of fixed assets	(11,240)
	<u>(195,040)</u>
Net cash used in investing activities	<u>(195,040)</u>

**NET INCREASE IN CASH AND CASH EQUIVALENTS** 16,964

**CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** 725,970

**CASH AND CASH EQUIVALENTS, END OF YEAR** \$ 742,934

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

State gross receipts taxes paid \$ 6,046

The accompanying notes are an integral part of the financial statements.

**ARROWHEAD INVESTMENT CENTER, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

Arrowhead Investment Center, LLC (the Company) is a wholly-owned subsidiary of Arrowhead Financial Group, Inc. Arrowhead Financial Group, Inc., is a wholly-owned subsidiary of Arrowhead Central Credit Union.

**Nature of Business**

The Company is a broker-dealer registered with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company provides brokerage services for annuities, mutual funds, and publicly traded securities to members of Arrowhead Credit Union and its subsidiaries.

The Company operates under the provisions of paragraph (k)(2)(ii) of rule 15c3-3 of the Securities and Exchange Commission and accordingly, is exempt from the remaining provisions of that rule. Essentially, the requirements of paragraph (k)(2)(ii) provide that the Company clear all customers on a fully disclosed basis with the fund companies or a clearing broker-dealer, and promptly transmit all customer funds and securities to the fund companies or a clearing broker-dealer. The fund companies and clearing broker-dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by fund companies or a clearing broker-dealer. In addition per regulation the Company is required to maintain it's own books and records.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make a number of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash in bank, money market accounts, dealer reserves, and all liquid investments with an original maturity of three months or less when purchased.

**Investment Securities**

Investment securities are purchased with the intent and ability to hold to maturity and are stated at cost, adjusted for amortization of premiums and accretion of discounts. Cost of securities sold for purposes of computing gains or losses is determined by the specific identification method.

**Fixed Assets**

Fixed assets include all furniture, fixture and equipment which are stated at cost less accumulated depreciation. Depreciation is charged to current operations over the estimated useful lives (3 to 5 years) of the related assets under the straight-line method.

**ARROWHEAD INVESTMENT CENTER, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition**

Commission income from sales of annuities, mutual funds, and publicly traded securities are recorded on the trade date at which time the related commission receivable is recorded.

**Advertising**

Advertising expense is expensed as it is incurred.

**Income Taxes**

The Company is a limited liability company and is not subject to federal or state income taxes. The Company's income or loss is reported on the tax return of its parent, Arrowhead Financial Group, Inc. However, the Company is subject to the California state taxes on gross receipts.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31, 2007, are as follows:

Cash on hand and in banks	\$ 563,658
Money market accounts	<u>179,276</u>
<b>Total cash and cash equivalents</b>	<b><u>\$ 742,934</u></b>

Restricted cash of \$50,000 is being held by National Financial Services, Inc. in order to use their clearinghouse services at December 31, 2007. A minimum of \$50,000 must be maintained at all times.

**NOTE 3 – INVESTMENT SECURITIES**

At December 31 2007, investment securities are comprised of the following:

	<b><u>Amortized Cost</u></b>	<b><u>Fair Value</u></b>
Certificates of deposit	<u>\$1,100,000</u>	<u>\$1,100,000</u>

Interest earned on investment securities and cash equivalents for the year ended December 31, 2007, are summarized as follows:

Money market dividends	\$ 228
Certificates of deposit	17,995
Deposit clearing accounts	<u>4,029</u>
<b>Total interest earned on investment securities and cash equivalents</b>	<b><u>\$ 22,252</u></b>

**ARROWHEAD INVESTMENT CENTER, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**NOTE 4 – COMMISSIONS RECEIVABLE**

Commissions receivable consist of amounts owed by various mutual funds, insurance companies, and brokers. Management has determined that there is no allowance for probable uncollectible accounts for the year ended December 31, 2007.

**NOTE 5 – FIXED ASSETS**

Fixed assets at December 31, 2007, are summarized as follows:

Furniture, fixtures and equipment	\$ 51,271
Software	19,329
Computers	<u>166,818</u>
	237,418
Less: accumulated depreciation	<u>218,313</u>
<b>Total</b>	<b><u>\$ 19,105</u></b>

**NOTE 6 – RELATED PARTY PAYABLE**

Related party payables at December 31, 2007, are summarized as follows:

Due to Arrowhead Financial Group, Inc. (parent)	\$ 32,797
Due to Arrowhead Central Credit Union (AFG parent)	<u>25,513</u>
<b>Total</b>	<b><u>\$ 58,310</u></b>

The Company is charged by Arrowhead Central Credit Union (parent of Arrowhead Financial Group, Inc.), for certain expense allocations including the costs of office support and management support. These expenses, which are included in occupancy and salaries and benefits expenses in the statement of operations, totaled \$209,450 for the year ended December 31, 2007.

**NOTE 7 – NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. The rule of limitations on withdrawal of equity capital also provides that equity capital may not be withdrawn or cash dividends paid if the resulting ratio of aggregate indebtedness to net capital would exceed 10 to 1. At December 31, 2007, the Company had net capital of \$488,334 (as computed under Rule 15c3-1), which was \$438,334 in excess of its required net capital of \$50,000. The Company's aggregate indebtedness to net capital ratio was 0.52 to 1 for the year ended December 31, 2007.

**ARROWHEAD INVESTMENT CENTER, LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

**NOTE 8 – LEASE COMMITMENTS**

The Company is renting its San Bernardino, California office location from the parent company of Arrowhead Financial Group, Inc. (Arrowhead Central Credit Union) on a month-to-month basis. The lease calls for monthly payments of \$12,500 and total rent expense for the year ended December 31, 2007 were approximately \$15,000.

**NOTE 9 – OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK**

The Company's customers' securities transactions are introduced on a fully disclosed basis with its clearing broker-dealer. The clearing broker-dealer carries all of the accounts of the customers of the Company and is responsible for execution, collection of, and payment of funds; and receipt and delivery of securities relative to customer transactions. Off-balance-sheet risk exists with respect to these transactions due to the possibility that customers may be unable to fulfill their contractual commitments wherein the clearing broker-dealer may charge any losses it incurs to the Company. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and that customer transactions are executed properly by the clearing broker-dealer.

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

**NOTE 10 – EMPLOYEE RETIREMENT PLANS**

The Company participates in Arrowhead Central Credit Union's 401(k) plan that allows employees to defer a portion of their current compensation. The Company matches a portion of employees' compensation and also allows for discretionary contributions. Contributions to the plan were \$35,808 for the year ended December 31, 2007.

During 2003, the Company added an unfunded deferred compensation arrangement for a select group of highly compensated employees. The plan allows for these employees to defer a portion of their compensation. The company has no employees participating in this plan, therefore, there were no discretionary contributions and no deferred compensation assets or liabilities for the year ended December 31, 2007.

This information is an integral part of the accompanying financial statements.

## **SUPPLEMENTAL INFORMATION**

***Independent Auditor's Report on Supplemental Information***  
**Required By Rule 17a-5(g)(1) of the Securities and Exchange Commission**

Management Committee  
Arrowhead Investment Center, LLC  
San Bernardino, California

We have audited the accompanying financial statements of Arrowhead Investment Center, LLC as of and for the year ended December 31, 2007, and have issued our report thereon dated February 18, 2008. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedule I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5(g)(1) under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Clifton Gunderson LLP*

Phoenix, Arizona  
February 18, 2008

## Schedule I

**ARROWHEAD INVESTMENT CENTER, LLC**  
**Computation of Net Capital under Rule 15c3-1**  
**of the Securities and Exchange Commission**  
**December 31, 2007**

**NET CAPITAL**

Total member's capital	\$ 1,759,194
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## Deduct non-allowable assets:

Commissions receivable	\$ 130,000
Investment income receivable	6,307
Investment securities not readily marketable	1,100,000
Fixed assets, net	19,105
Prepaid expenses	9,037
Other assets	<u>6,411</u>

	<u>1,270,860</u>
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Net capital before haircuts on investment securities	488,334
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Deduct haircuts on investment securities:

	<u>-</u>
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**NET CAPITAL**

	<u>\$ 488,334</u>
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## Computation of net capital requirements:

## Aggregate indebtedness

Accounts payable and accrued expenses	<u>\$ 254,600</u>
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## Required percentage

	<u>6.67%</u>
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## Computed net capital requirement

	<u>\$ 16,973</u>
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## Minimum dollar net capital requirement

	<u>\$ 50,000</u>
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## Net capital requirement

	<u>\$ 50,000</u>
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**EXCESS NET CAPITAL**

	<u>\$ 438,334</u>
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## Schedule 11

**NET CAPITAL, SCHEDULE I** **\$ 488,334**

***Independent Auditor's Report on Internal Control  
Required by Rule 17a-5***

Management Committee  
Arrowhead Investment Center, LLC  
San Bernardino, California

In planning and performing our audit of the financial statements and supplemental schedules of Arrowhead Investment Center, LLC (the Company), for the year ended December 31, 2007, we considered its internal controls, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13.
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007, to meet the SEC's objectives.

This report is intended solely for the information and use of the Management Committee, management, the SEC, the National Association of Securities Dealers, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

*Clifton Henderson LLP*

Phoenix, Arizona  
February 18, 2008

END